

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2003**

NOTE 6 – CAPITAL ASSETS

Primary Government

The following is a summary of changes in capital assets for the King County Primary Government:

**CHANGES IN CAPITAL ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2003**

	Balance 01/01/03	Increases	Decreases	Balance 12/31/03
Governmental Activities:				
Capital assets not being depreciated				
Land	\$ 516,669,448 ^(a)	\$ 75,083,042	\$ (1,014,930)	\$ 590,737,560
Infrastructure	603,024,258	121,906,894	(10,927,448)	714,003,704
Work in progress	111,144,688	56,958,271	(50,291,060)	117,811,899
Total capital assets not being depreciated	<u>1,230,838,394</u>	<u>253,948,207</u>	<u>(62,233,438)</u>	<u>1,422,553,163</u>
Capital assets being depreciated				
Buildings	485,311,072	16,823,770	(5,965)	502,128,877
Improvements other than buildings	1,189,149	-	-	1,189,149
Equipment	188,226,129	38,725,075	(24,492,182)	202,459,022
Total capital assets being depreciated	<u>674,726,350</u>	<u>55,548,845</u>	<u>(24,498,147)</u>	<u>705,777,048</u>
Less accumulated depreciation for:				
Buildings and improvements	(137,233,777)	(21,531,339)	-	(158,765,116)
Equipment	(111,796,603)	(18,834,051)	18,113,605	(112,517,049)
Total capital assets being depreciated - net	<u>425,695,970</u>	<u>15,183,455</u>	<u>(6,384,542)</u>	<u>434,494,883</u>
Governmental activities capital assets - net	<u>\$ 1,656,534,364</u>	<u>\$ 269,131,662</u>	<u>\$ (68,617,980)</u>	<u>\$ 1,857,048,046</u>
Business-type Activities				
Capital assets not being depreciated				
Land	\$ 204,543,367	\$ 24,053,617	\$ (3,082,262)	\$ 225,514,722
Work in progress	463,131,014	357,629,300	(191,502,882)	629,257,432
Total capital assets not being depreciated	<u>667,674,381</u>	<u>381,682,917</u>	<u>(194,585,144)</u>	<u>854,772,154</u>
Capital assets being depreciated				
Buildings	712,520,692	43,197,790	(1,125)	755,717,357
Improvements other than buildings	1,392,901,950	79,474,467	(6,300,639)	1,466,075,778
Equipment	1,645,088,636	77,948,294	(62,765,062)	1,660,271,868
Total capital assets being depreciated	<u>3,750,511,278</u>	<u>200,620,551</u>	<u>(69,066,826)</u>	<u>3,882,065,003</u>
Less accumulated depreciation for:				
Buildings and improvements	(777,981,230)	(64,644,675)	2,906,664	(839,719,241)
Equipment	(879,631,310)	(110,112,220)	60,555,683	(929,187,847)
Total capital assets being depreciated - net	<u>2,092,898,738</u>	<u>25,863,656</u>	<u>(5,604,479)</u>	<u>2,113,157,915</u>
Business-type activities capital assets - net	<u>\$ 2,760,573,119</u>	<u>\$ 407,546,573</u>	<u>\$ (200,189,623)</u>	<u>\$ 2,967,930,069</u>

(a) See Note 15, "Restrictions, Reserves, Designations, and Changes in Equity" – Restatements of Beginning Balances

All but one of the County's internal service funds are classified under governmental activities for government-wide reporting. The Wastewater Equipment Rental Fund's capital assets and depreciation are reported under business-type activities.

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NOTE 6 – CONTINUED**Depreciation Expense**

Depreciation expense was charged to functions of the primary government as follows:

Governmental activities	
General government services	\$ 11,603,924
Law, safety & justice	14,412,496
Physical environment	377,635
Transportation	2,036,322
Economic environment	262,301
Mental & physical health	2,375,633
Culture & recreation	1,779,974
Capital assets held by the County's governmental internal service funds are charged to governmental activities based on their usage of the assets	7,170,330
Total depreciation expense – governmental activities	<u>\$ 40,018,615</u>
Business-type activities	
Water	\$ 87,722,739
Transit	70,965,675
Solid Waste	10,259,636
Airport	1,071,781
Radio Communications	2,101,871
Institutional Network	1,172,865
Capital assets held by the Wastewater Equipment Rental internal service fund are charged to business-type activities based on their usage of the assets	423,923
Total depreciation expense – business-type activities	<u>\$ 173,718,490</u>

Infrastructure

Infrastructure capital assets are long-lived capital assets that are normally stationary in nature and can be preserved for a significantly greater number of years than most capital assets. Included in King County's infrastructure is the roads and bridges network maintained by the Roads Division of the Department of Transportation. The roads and bridges network infrastructure is reported using the modified approach, i.e., depreciation is not recorded. The cost of preserving and maintaining the network of infrastructure over an indefinite period of time essentially substitutes for the depreciation factor. A government using the modified approach is required under GASB Statement No. 34 to demonstrate that it is maintaining its infrastructure at the acceptable, predetermined condition level by disclosing trend data on condition assessments and planned versus actual preservation costs. An important consequence of opting for the modified approach is that costs incurred to extend the asset's useful life (which are normally capitalized under the depreciation method) are now treated as expenditures for preservation.

Roads and Bridges Infrastructure Valuation

The roads and bridges infrastructure network acquired or constructed prior to 2002 is valued at estimated historical cost. Base year estimates of 2001 replacement costs for all existing roads and 1988 replacement costs for all bridges were obtained using standard costing methods with the resultant values being deflated to the acquisition year (or estimated acquisition year, where

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DECEMBER 31, 2003****NOTE 6 – CONTINUED**

the actual year was unknown), using the Engineering News Record Construction Cost Index. Retroactive reporting of traffic control elements is based on replacement cost.

Land

Land also includes right-of-way and farmland development rights.

Right-of-Way Assets

Estimated historical costs for these assets were obtained by estimating replacement costs at 2001 using land assessed valuation data and then deflating the resultant values to the acquisition year (or estimated acquisition year, where the actual year is unknown), using assessed land value indices from the King County Assessor's Office.

Farmland Development Rights

The Farmland Preservation Program was established to preserve, protect, and enhance agricultural lands and open spaces. Under this program the County has acquired farmland development rights for over 12,500 acres. "Development rights" are the rights to develop land for any uses other than farming or open space. The owner who sells development rights sells only a part of an owner's property rights and retains all other ownership rights.

Real Property Under Capital Lease

King County land and buildings include the capitalized costs of the King Street Center (\$78.2 million) and the Issaquah District Court (\$5.9 million). These properties are legally owned by private property management companies who are leasing the buildings to the County under terms which are in-substance capital leases. The rental payments collected include the monthly debt service costs of the privately issued bonds used to construct the buildings. The lease contracts provide for a bargain purchase option at the end of the lease term. The capital lease obligations are reported as governmental activities' long-term liabilities.

Capital Assets Reverting to Private Ownership in Future Years

General capital buildings in the amount of \$4,634,841, financed by grants from the State of Washington under Referendums #29 and #37, revert to private ownership in future years.

Artwork

Artwork that meets the threshold of \$1,000 is capitalized under furniture, machinery and equipment.

Construction Commitments

Project commitment is defined as authorized and planned expenditures for the next fiscal year. These commitments, totaling about \$2.0 billion, will be funded from existing restricted net assets in proprietary funds of \$500 million and existing capital projects fund undesignated fund balances of \$31.0 million. The balance is anticipated to come from future borrowing, federal and state grants, and contributions from other funds.

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NOTE 6 – CONTINUEDProprietary Funds

Public Transportation Enterprise - \$787.1 million is committed to maintenance of existing infrastructure, replacement of aging fleet, and expansion of transit base capacity.

Solid Waste Enterprise - \$106.6 million is committed to improving solid waste facilities and to ensuring compliance with legal requirements.

Water Quality Enterprise - \$616.1 million is committed to ensuring the continued operation, reliability, and compliance with regulatory standards of wastewater treatment facilities.

Other enterprises - \$17.9 million is committed to construction and acquisition projects at the King County International Airport and \$0.4 million is for equipment acquisition in the Radio Communications Enterprise.

Capital Projects Funds

\$451.6 million is committed to the acquisition or development of capital improvements, including new building construction, building improvements, seismic upgrades, energy conservation, purchase of open space, road construction and preservation, improvements within the surface water management program, and repair and replacement of general government facilities.

Discretely presented component unitsHarborview Medical Center (HMC)

Capital assets activity for HMC for their fiscal year ended June 30, 2003, was as follows:

	Balance 07/01/02	Increases	Decreases	Balance 06/30/03
Capital assets not being depreciated:				
Land	\$ 1,585,972	\$ -	\$ -	\$ 1,585,972
Work in progress	8,488,628	18,915,971	(10,074,875)	17,329,724
Total capital assets not being depreciated	<u>10,074,600</u>	<u>18,915,971</u>	<u>(10,074,875)</u>	<u>18,915,696</u>
Capital assets being depreciated:				
Buildings	177,430,543	7,876,848	-	185,307,391
Improvements other than buildings	1,269,137	94,176	-	1,363,313
Equipment	233,805,990	11,554,732	(1,002,307)	244,358,415
Total capital assets being depreciated	<u>412,505,670</u>	<u>19,525,756</u>	<u>(1,002,307)</u>	<u>431,029,119</u>
Less accumulated depreciation for:				
Buildings	(60,450,955)	(6,140,517)	-	(66,591,472)
Improvements other than buildings	(586,290)	(65,789)	-	(652,079)
Equipment	(121,430,647)	(16,319,488)	905,221	(136,844,914)
Total capital assets being depreciated - net	<u>230,037,778</u>	<u>(3,000,038)</u>	<u>(97,086)</u>	<u>226,940,654</u>
HMC capital assets, net	<u>\$ 240,112,378</u>	<u>\$ 15,915,933</u>	<u>\$ (10,171,961)</u>	<u>\$ 245,856,350</u>

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NOTE 6 – CONTINUED

In addition, HMC owns property that is held for future use which at June 30, 2003, consisted of the following:

	<u>Cost</u>	<u>Accumulated Depreciation</u>
Land	\$ 2,717,798	\$ -
Buildings	1,898,973	646,608
Improvements other than buildings	26,344	26,344
Total	<u>\$ 4,643,115</u>	<u>\$ 672,952</u>

A major construction program is currently ongoing at the Harborview Medical Center and it involves upgrades to existing hospital buildings, demolition of seismically unsound older buildings, and construction of new and replacement facilities. The program, which started in 2001, is to be funded by a total of \$193.1 million in bonds to be issued over a span of 10 years.

Washington State Major League Baseball Stadium Public Facilities District (WSMLB)

Capital assets activity for the WSMLB for the period ended December 31, 2003, was as follows:

	<u>Balance 01/01/03</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance 12/31/03</u>
Capital assets not being depreciated:				
Land	\$ 38,498,454	\$ -0-	\$ -0-	\$ 38,498,454
Capital assets being depreciated:				
Baseball stadium	488,841,352	-	-	488,841,352
Improvements other than buildings	7,504,671	3,427,011	-	10,931,682
Equipment	46,150	-	-	46,150
Total capital assets being depreciated	<u>496,392,173</u>	<u>3,427,011</u>	<u>-0-</u>	<u>499,819,184</u>
Less accumulated depreciation for:				
Baseball stadium	(42,680,526)	(12,408,650)	-	(55,089,176)
Improvements other than buildings	(187,617)	(85,675)	-	(273,292)
Equipment	(44,008)	(1,048)	-	(45,056)
Total capital assets being depreciated - net	<u>453,480,022</u>	<u>(9,068,362)</u>	<u>-</u>	<u>444,411,660</u>
WSMLB capital assets, net	<u>\$ 491,978,476</u>	<u>\$ (9,068,362)</u>	<u>\$ -0-</u>	<u>\$ 482,910,114</u>